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# Why India's airlines fail to take off

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Loss-making Air India: It's tough for any private airline to raise fares when one of its competitors seems to have no real budget constraint. (Photo provided)

Anyone puzzled by how the Indian economy manages to grow swiftly while somehow failing to be prosperous could do worse than look at the state of India's airlines. Over the past four years, passenger growth in India has been rapid: The number of flights taken has increased between 15% and 20% per year. Demand growth this year is likely to be the highest in the world. Yet the industry itself hasn't benefited. Almost every Indian airline is struggling.

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## [American scholar in Khon Kaen loses job, visa revoked](#)

Khon Kaen University (KKU) has terminated its employment contract with a well-known American scholar who has been in Thailand for more than 30 years, resulting in his visa being revoked immediately.

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Indonesia aims to welcome back foreign tourists to the resort islands of Bali, Bintan and Batam by the end of July, with a plan to speed up vaccinations in those areas to halt the spread of the novel coronavirus.

17:59

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## [Myanmar junta foes form 'unity government'](#)

Opponents of Myanmar's junta on Friday announced a National Unity Government including ousted members of parliament and leaders of anti-coup protests and ethnic minorities, saying their aim was to root out military rule.

17:58

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Consider Jet Airways Ltd, the oldest private airline in India. It's suffered losses for three consecutive quarters now; its cumulative current liabilities have climbed to US\$2.2 billion (72 billion baht). The airline is struggling to pay its pilots and has reportedly failed to make payments to the owners of its leased aircraft. It's even been difficult for it to pay its airport fees.

Another airline, SpiceJet Ltd, has been in the red for two quarters and is also delaying its payments to the Airports Authority of India. And even the market leader, the much admired IndiGo, declared a quarterly loss recently for the first time since going public in 2015.

It is easy, perhaps, to blame the fragility of this sector on variables beyond airlines' control. When the price of fuel goes up, Indian airlines make losses; when the rupee depreciates, Indian airlines make losses. And, of course, aviation worldwide is famously crisis-prone. But there's something special, surely, about Indian aviation, which seems to be in a nosedive even as demand is growing faster than anywhere else.

The sector has also been weakened thanks to a combination of errors by both the private sector and, crucially, the government. Companies have lobbied as if their lives depended on it; governments have intervened as if their re-elections depended on it. The consequence is that, for decades now, market forces have been stifled in the sector.

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Even Jet Airways has profited in the past off government action. The airline, which is 24% owned by Abu Dhabi-based Etihad PJSC, benefited hugely from a controversial decision by the Indian government to multiply the number of seats permitted between Indian airports and the giant Gulf hubs of Dubai and Abu Dhabi. This gentle treatment was notably different than that handed out to Jet's biggest domestic rival for a decade, Vijay Mallya's Kingfisher Airlines, which was denied the right to stop and refuel its long-haul flights in the Gulf. (Kingfisher collapsed in 2012, and Mr Mallya is now in exile in London, where he is fighting extradition requests from an Indian government that accuses him of absconding with money from state-controlled banks.)

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Government intervention is also stifling the future of the sector.

Connecting smaller Indian towns and making short-haul flights profitable is central to Indian aviation's hopes for the future. Yet Prime Minister Narendra Modi has insisted on a populist and uneconomic \$35 price cap for such flights. Few airlines have been interested -- and those that were discovered that metropolitan airports would prefer to give their scarce landing slots to bigger and more remunerative jets. Unsurprisingly, the new scheme to connect smaller airports seems to have crashed before it took off, with airline licences being cancelled left and right.

And then, of course, there's the elephant in the sky: the state-owned Air India, which lumbers along adding to its losses. Every year, the overstaffed and inefficient airline puts taxpayers deeper in debt. Worse is its malign influence on the sector as a whole. After all, it's tough for any private airline to raise fares when one of its competitors seems to have no real budget constraint and can keep fares at whatever seems politically acceptable.

Jet is looking for investors now. Etihad -- which is bleeding cash itself -- might have to step up. Nobody else looks really interested, and definitely not unless they win a controlling stake; nobody was interested in buying Air India either when the government put it up for sale earlier this year. The Tata Group, which already runs one airline -- Vistara -- has reportedly been interested in both, but that's because the group has had an obsession with airlines ever since Tata Airlines was nationalised in the 1950s and turned into Air India. Unless you are a little obsessed or have already invested in the sector, who's going to want to run an airline in India?

The troubles of its aviation business are a microcosm of how the Indian economy works. From the outside, everything should be going its way -- strong demand, smart companies, sound fundamentals. But a combination of private sector overconfidence and government intervention means that it's just too difficult to make sustained profits here. - **BLOOMBERG OPINION**

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Mihir Sharma is a Bloomberg Opinion columnist.

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